

Prime money market fund holdings update

June 2014

Short Duration Strategy

- Typical quarter-end dynamics dominated MMF holdings this past month.** But unlike prior instances, this quarter-end was particularly dramatic. Given upcoming leverage ratio disclosures, many banks significantly shrunk their balance sheets at the end of June, triggering a sharp spike in RRP usage among money funds. While this was only a temporary phenomenon (as banks returned to scaling their balance sheets post quarter-end), these acute spikes in RRP holdings are significant in that they highlight the ease to which funds can move en masse into the RRP facility. As bank regulations continue to be implemented, this pattern of increased RRP usage at quarter-ends could become a regular feature.
- Total taxable MMF AuMs declined by \$13bn (0.6%) in June, significantly less than the average June outflow over the prior 2 years of \$27bn.** As is typically the case, flows out of prime MMFs prompted the contraction in balances (-\$15bn). Government MMFs on the other hand saw \$2bn of inflows. YTD, taxable MMF balances have declined by \$132bn or 5.4%. While fairly sizable, outflows during the first half of the year are rather common (Exhibit 1). Cash typically returns to the MMF complex in the second half. However, given the potential imminent release of a final rule on money fund reform, it's unclear we will see a similar dynamic unfold this year.
- As discussed in our last weekly publication, the Fed allotted \$295bn of Fed RRP to MMFs at the end of June, representing about 87% of the \$340bn total usage** (Exhibit 2). There is a history of quarter-end surges in MMFs' use of the RRP program, but this past

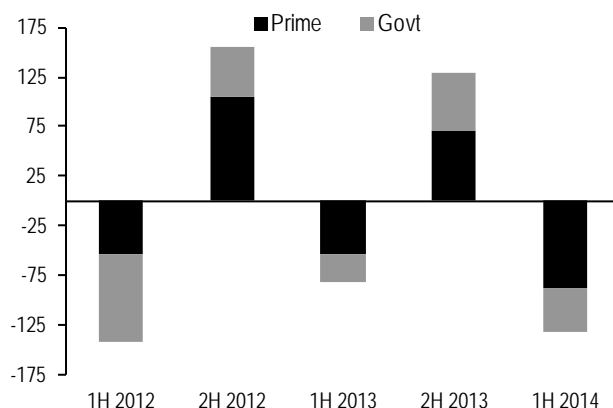
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Exhibit 1: MMF outflows during the first half of the year have been common

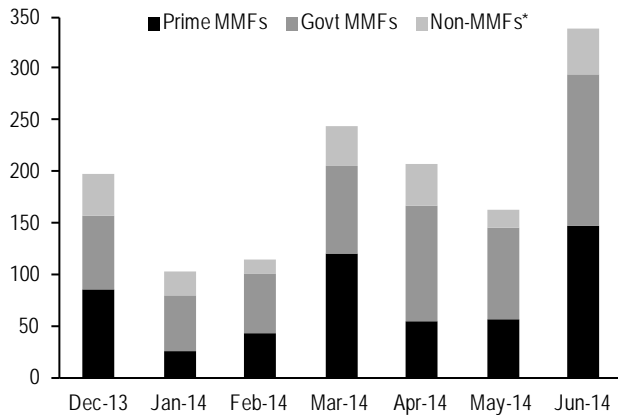
1H and 2H change in prime and govt MMF AuMs; \$bn



Source: iMoneyNet

Exhibit 2: MMFs are the key drivers behind usage of the RRP facility, especially at quarter-ends

Breakdown of RRP participation by counterparty type (\$bn)



Source: J.P. Morgan, Company Holdings Reports

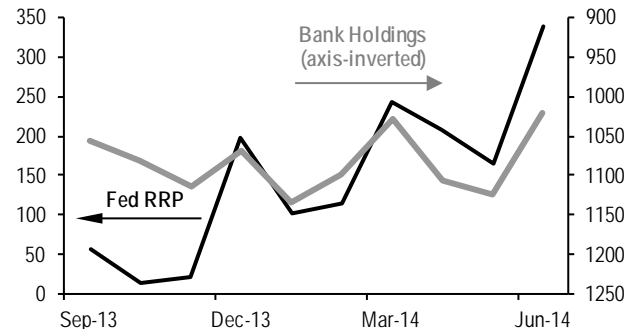
* Non-MMFs include GSEs, banks and primary dealers

quarter-end is by far the largest. Both prime and government MMFs saw record participation into the RRP facility, totaling \$147bn and \$148bn respectively. There were four prime MMFs and zero government MMFs that went in for the full \$10bn allotment. Comparatively, there were three prime MMFs and two government MMFs that went in for the full \$7bn allotment at March quarter-end.

- **The surge in RRP was prompted by a sharp pullback in bank balance sheets at quarter-end.** As Exhibit 3 shows, there is a strong correlation between the amount of bank paper that MMFs hold and the amount that MMFs subscribe to the Fed RRP facility. This shouldn't come as

Exhibit 3: There's a strong correlation between the amount of bank paper and the amount of RRP that MMFs hold

Prime MMF holdings of bank exposures vs. total Fed RRP usage (\$bn)



Source: J.P. Morgan, iMoneyNet, Company Holdings Reports

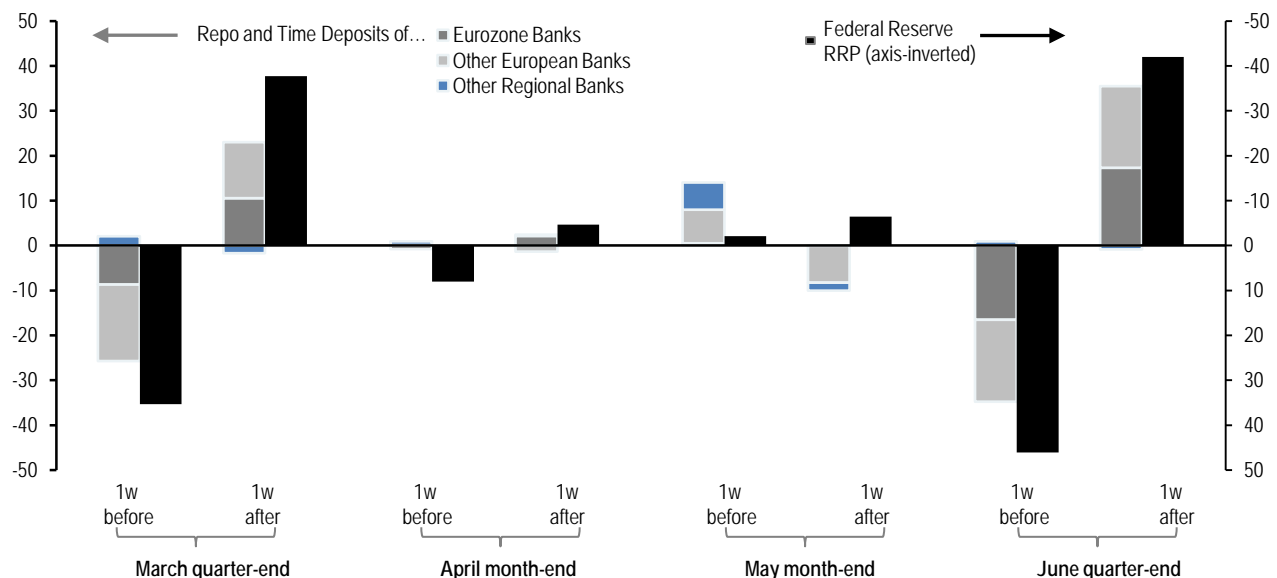
Note: Bank unsecured paper includes CP, CDs, TDs and other money market instruments. Bank secured paper includes ABCP, CCP and repo.

a surprise as the demand for overnight assets increases in response to banks' desire to limit balance sheet size around quarter-ends. But the degree to which they were doing so intensified this past quarter following the release of the leverage ratio rule earlier this year. Under the rule, banks are required to formally disclose their leverage ratios beginning 1Q15 and include three quarters of historical data. In other words, 2Q14 leverage ratios will have to be disclosed beginning next year.

- **Due to the way leverage ratios are calculated by European bank regulators, European banks exhibited the greatest contraction in bank balance sheets.** Unlike most US banks which measure their balance sheet costs against daily averages, many foreign banks manage

Exhibit 4: During quarter-ends, banks shrink their balance sheets, prompting MMFs to tap into the RRP facility to find an overnight cash substitute. Once quarter-end passes, this dynamic reverses course

MMF holdings of repo, time deposits and RRP among a sample of MMF weekly reporters, 1w before and after month-end/quarter-end (\$bn)



Source: J.P. Morgan, Weekly MMF holdings reports sampled from 4 fund families with 17 funds totaling ~\$300bn of assets under management (represent roughly 15% of eligible RRP counterparty AuMs and 13% of taxable MMF AuMs)

their costs against a quarterly average calculated using month-end balances. As a result, European banks have shown the greatest fluctuation in their overnight funding liabilities pre- and post-quarter-end, which has then impacted MMFs' usage of the RRP facility. A sample collection of weekly MMF holdings of repo and time deposits pre- and post-quarter-ends shows this very dynamic among European banks with MMFs (Exhibit 4).

- It's no surprise then that **June sector allocations data show that prime MMFs significantly reduced their exposures to Yankee banks, only to be offset by their increase to the Fed's RRP facility** (Exhibit 5). The decline in Yankee bank holdings was primarily concentrated in time deposits. By jurisdiction, the decrease was driven by reductions in holdings of French banks (-\$18bn), Swedish banks (-\$17bn), Norwegian banks (-\$14bn), and UK banks (-\$13bn) (Exhibit 6).
- Notably, prime MMFs' holdings of Japanese banks were the only banking sector that materially increased month-over-month.** As of June month-end, Japanese bank exposures increased by \$12bn, mostly via growth in unsecured CDs. In total, prime MMFs have \$169bn of exposures to Japanese banks, slightly below the peak of \$174bn in November 2013. At current levels, they are the second largest banking sector holding in prime MMFs, representing about 17% of total bank exposures.

Exhibit 5: Prime MMFs offset their reductions in Yankee bank exposures with an increase in Fed RRP usage

Prime MMF exposures by sector (\$bn)

Issuer Type	Jun-14	% of total	chg m/m	chg since Dec-13	m/m %	% chg since Dec-13
Banks (US)	168	12%	4	(7)	2%	-4%
Banks (Eurozone)	191	13%	(56)	(14)	-23%	-7%
Banks (Other Yankee)	593	42%	(55)	(24)	-8%	-4%
ABCP/CCP (Banks)	69	5%	3	(5)	4%	-6%
ABCP (Non-banks)	17	1%	(0)	(3)	-2%	-17%
ABS issuers	1	0%	0	(0)	24%	-23%
Corporates (Financial)	13	1%	(1)	(4)	-8%	-25%
Corporates (Non-financial)	33	2%	0	2	1%	8%
US Treasuries	64	5%	2	(38)	3%	-37%
US Agencies	79	6%	5	(35)	7%	-30%
US S&L Govt/Munis	19	1%	(2)	(9)	-8%	-33%
Foreign SSA	42	3%	2	4	5%	10%
Central Banks (Fed RRP)	145	10%	89	74	158%	103%
Other	6	0%	2	1	61%	30%
Total	1,441	100%	(6)	(57)	0%	-4%

*Includes bank sponsored, non-bank sponsored, and government/agency sponsored conduits.

Source: J.P. Morgan estimates, fund holdings reports, iMoneyNet

Note: J.P. Morgan estimates of exposures in prime money market funds are based on a sample of large funds including funds managed by Fidelity, BlackRock, JPMorgan, Vanguard, Federated, Dreyfus, Wells Fargo, Goldman Sachs, Morgan Stanley, UBS, Schwab, SSgA, American Funds, BofA, First American, Northern, Prudential, RBC, Western Asset Management. Sample represents 86% of US prime money market fund market in terms of assets under management. Allocation percentages are calculated from the sample and then applied to the period's total prime fund assets under management. Banks include unsecured CP, ABCP, CD, time deposits, repo, and other notes. Corporates include CP and other notes. US Treasuries include T-bills and coupons. US Agencies include discount notes and fixed/floating notes. US S&L Govt/Muni include muni CP, notes, and VRDNs. Foreign SSA includes CP, CDs, and other notes. Central banks include repo. Other includes investments in funds including other MMFs and tax-exempt preferreds.

Exhibit 6: Prime MMF total bank holdings decreased by \$104bn in June, driven by declines in time deposits and CP/CD outstandings

J.P. Morgan estimate of prime MMF exposures to banks (\$bn)

	Issuer # / Top 3	Jun-14										m/m change										Change since Dec-13									
		CP	CD	TD	ABCP	CCP	Agy RP	Tsy RP	Oth RP	Other	Total	CP	CD	TD	ABCP	CCP	Agy RP	Tsy RP	Oth RP	Other	Total	CP	CD	TD	ABCP	CCP	Agy RP	Tsy RP	Oth RP	Other	Total
Total	76 / 14%	159	549	53	54	15	45	8	89	48	1,020	(18)	(11)	(71)	4	(1)	(9)	(8)	3	6	(104)	(0)	6	(35)	(5)	0	(29)	(8)	8	14	(49)
Eurozone	16 / 49%	23	106	21	21	2	15	5	16	4	214	(3)	(20)	(23)	3	(1)	(9)	(2)	1	1	(54)	(3)	14	(22)	2	(1)	(5)	1	(0)	2	(12)
Austria	1 / 100%	-	-	1	-	-	-	-	-	-	1	-	-	(0)	-	-	-	-	-	-	(0)	-	-	(0)	-	-	-	-	-	-	(0)
Belgium	1 / 100%	-	-	1	-	-	-	-	-	-	1	-	(7)	(3)	-	-	-	-	-	-	(9)	-	-	1	-	-	-	-	-	-	1
France	5 / 80%	10	64	15	12	1	11	4	12	1	130	(2)	(11)	(18)	2	(0)	(6)	0	1	1	(33)	(7)	23	(22)	0	0	(1)	1	(0)	1	(3)
Germany	4 / 94%	3	13	1	6	1	2	0	2	1	30	0	(1)	(1)	1	(1)	(3)	(3)	(1)	0	(9)	2	(7)	0	2	(1)	(3)	(0)	1	0	(6)
Luxembourg	1 / 100%	0	-	-	-	-	-	-	-	-	0	0	-	-	-	-	-	-	-	0	0	0	-	-	-	-	-	-	-	-	0
Netherlands	4 / 100%	10	29	4	2	-	2	1	2	2	51	(1)	(1)	(1)	0	-	(0)	0	0	(0)	(2)	2	(2)	(2)	(0)	-	(2)	(0)	(1)	1	(5)
Other Europe	13 / 49%	49	75	17	9	1	2	1	21	8	183	(15)	(7)	(44)	0	0	(3)	(5)	0	1	(73)	(3)	(8)	(4)	0	(0)	(4)	(1)	4	1	(14)
Norway	1 / 100%	7	3	-	-	-	-	-	-	-	11	(0)	(2)	(14)	-	-	-	-	-	(0)	(17)	0	(3)	(0)	-	-	-	-	-	-	(4)
Sweden	4 / 82%	28	32	15	-	-	-	-	-	7	82	(0)	(4)	(17)	-	-	-	-	-	1	(20)	(2)	5	(3)	-	-	-	-	-	1	1
Switzerland	2 / 100%	3	25	-	4	-	1	1	18	1	53	(0)	(0)	-	(1)	-	1	1	0	0	0	(0)	(7)	-	3	-	(1)	1	4	0	1
UK	6 / 78%	10	15	1	5	1	0	1	3	1	38	(15)	(1)	(13)	1	0	(3)	(5)	0	0	(36)	(1)	(3)	0	(3)	0	(3)	(2)	0	(0)	(12)
Other Regions	47 / 23%	87	367	15	24	11	29	3	51	36	623	1	17	(4)	0	(0)	3	(1)	2	4	22	6	0	(9)	(7)	1	(21)	(8)	5	10	(23)
Australia	6 / 81%	51	25	4	0	-	-	-	-	6	86	0	2	(3)	(0)	-	-	-	-	1	1	3	(7)	(5)	(0)	-	-	-	-	1	(8)
Canada	7 / 70%	5	121	6	8	4	4	1	5	6	160	(0)	(2)	3	1	0	1	1	1	0	4	(1)	(6)	2	(1)	1	1	(1)	1	4	0
Chile	4 / 91%	1	1	-	-	-	-	-	-	-	2	0	(0)	-	-	-	-	-	-	-	0	0	0	-	-	-	-	-	-	-	0
China	3 / 100%	0	3	1	-	-	-	-	-	1	4	0	0	(0)	-	-	-	-	-	0	0	0	(2)	0	-	-	-	-	-	1	(2)
India	1 / 100%	0	-	-	-	-	-	-	-	-	0	(0)	-	-	-	-	-	-	-	-	(0)	(0)	-	-	-	-	-	-	-	-	(0)
Japan	7 / 74%	8	141	3	7	-	3	0	4	2	169	(0)	11	(1)	1	-	1	0	(0)	1	12	1	(2)	(3)	0	-	(3)	0	(0)	1	(5)
Kuwait	1 / 100%	-	1	-	-	-	-	-	-	-	1	-	0	(1)	-	-	-	-	-	-	(1)	-	0	(0)	-	-	-	-	-	-	(0)
Singapore	3 / 100%	9	5	0	-	-	-	-	-	2	16	1	1	0	-	-	-	-	-	0	2	3	0	(1)	-	-	-	(2)	-	2	2
US	15 / 67%	12	69	3	9	8	21	1	42	20	186	(1)	4	(2)	(1)	(0)	2	(2)	1	1	2	(1)	17	(3)	(6)	0	(19)	(5)	3	2	(11)

Source: J.P. Morgan estimates, fund holdings reports, iMoneyNet. * Top 3 issuer concentrations by country. Note: Other category includes money market eligible notes/bonds. Table does not include exposures to VRDN credit/liquidity providers.

- **Despite negative headlines of BNP Paribas in late May, prime MMFs did not materially reduce their exposures to the counterparty last month.** In fact, as of June month-end exposures to BNP Paribas amounted to \$37.7bn, down only \$1.8bn from the prior month, with most of the exposures continuing to be concentrated in unsecured CP/CDs (Exhibit 7). However, the weighted average maturity of CP/CD holdings of BNP Paribas fell fairly sizably, to 40 days as of June month-end from 52 days at the end of May and 86 days at the end of April. Clearly, accounts have shortened their maturities in an attempt to reduce their exposure to the counterparty. Still, BNP Paribas continues to have a broad investor base with 20 prime money fund families invested in the name as of June month-end.

- **At the end of June, MMFs held a total of \$15.9bn in Treasury floaters, an increase of \$2.46bn from May.** The pace at which MMFs have added Treasury FRNs has slowed somewhat in the second quarter (\$6.44bn) versus first quarter (\$9.46bn). **At current levels, MMFs hold about 19% of the \$82bn currently outstanding, a decrease from 23% in March.** This seems to suggest that non-MMF investors are participating in a greater portion of the market and finding this product relatively more attractive (Exhibit 8). Treasury MMFs continue to be the largest holders of Treasury FRNs with \$10.5bn in their portfolios as of May month end, followed by prime MMFs with \$4.1bn, and Government Agency MMFs with \$1.3bn.

- **Looking ahead, forthcoming details about money fund reform and the Fed's exit strategy will dominate investors' focus the second half of this year.** Those two events loom large given their potential to significantly reshape the money markets. We have discussed money fund reform and its implications on the money markets extensively in prior publications. According to various news articles, the SEC is expected to vote on a final rule next Wednesday on July 23. This has not been publicly confirmed by the SEC yet, but this is something we are monitoring very closely. On the Fed's exit strategy, we suspect more clarity would be provided soon – perhaps at the September FOMC meeting.

Exhibit 7: Despite negative headlines, holdings of BNP Paribas were nearly unchanged month-over-month

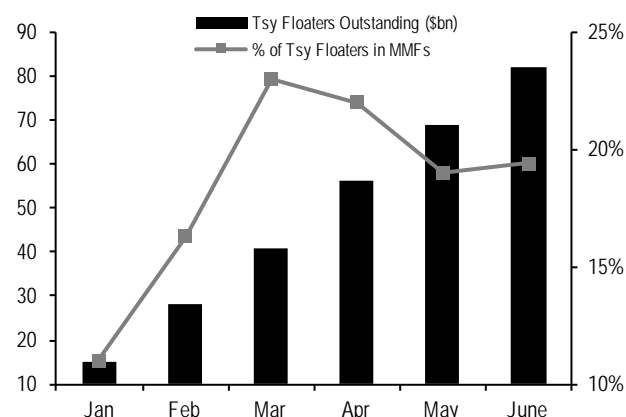
Prime MMF exposures to BNP Paribas (\$bn)

Asset	May 2014	June 2014	Chg
CP	6.3	6.9	0.6
CD	16.1	14.7	(1.5)
TD	0.3	0.8	0.5
ABCP	1.4	1.4	0.0
CCP	1.4	1.2	(0.3)
Agy RP	8.1	6.5	(1.6)
Tsy RP	0.1	0.2	0.0
Oth RP	5.7	6.0	0.3
Other	0.0	0.1	0.1
Total	39.5	37.7	(1.8)

Source: J.P. Morgan estimates, fund holdings reports, iMoneyNet

Exhibit 8: MMFs currently hold about 19% of the Treasury floater market, a percentage that has been declining since March

Treasury Floater Outstanding versus % of Treasury Floaters in MMFs



Source: J.P. Morgan, Fund Holdings Reports, Crane Data

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